



DEPARTMENT OF THE NAVY
SPACE AND NAVAL WARFARE SYSTEMS COMMAND
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SPAWARINST 12530.2
SPAWAR 07-2
19 March 1998

SPAWAR INSTRUCTION 12530.2

From: Commander, Space and Naval Warfare Systems Command

Subj: DEMONSTRATION PROJECT PAY SYSTEM

Ref: (a) Demonstration Project Plan published in the Federal Register of
18 April 1980
(b) National Defense Authorization Act for Fiscal Year 1995 Section 342
(c) ASN (MR&A) Memorandum of 30 July 1996
(d) SPAWARINST 12430.1 of 10 November 1994

Encl: (1) Incentive Pay System
(2) New Employees
(3) Promotion and Other Level Changes
(4) Special Instructions for DP-V

1. Purpose. To describe the Demonstration Project pay system.

2. Cancellation. SPAWARINST 12530.1 of 10 November 1994 is cancelled.

3. Background. Reference (a) approved the Demonstration Project as an experiment. Reference (b) made permanent the authority of the Secretary of the Navy to continue the Personnel Demonstration Project authorities at the Space and Naval Warfare Systems Command (SPAWAR) and its successor organizations. Reference (c) authorized use of the Demonstration Project authority at NCCOSC successor organizations, SPAWAR and Program Executive Office, Space, Communications and Sensors (PEO-SCS). Part of the Demonstration Project is a pay system which provides a positive link between performance and compensation by expanding the application of merit pay concepts.

4. Scope. This instruction applies to all PEO-SCS and SPAWAR claimancy civilian personnel covered by the Demonstration Project.

5. Definitions.

a. Career Path. A broad classification category containing groups of occupations or professional which are sufficiently similar to warrant similar treatment in personnel and pay administration. The career paths are : Professional (DP), Administrative (DA), Technician (DT), Specialist (DS), and General (DG).

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b. Level. The grouping within a career path within which employees perform work of sufficiently similar difficulty and responsibility and requiring similar levels of qualifications. A Demonstration Project level is composed of two or more General Schedule (GS) grades.

c. Pay. Pay may be any whole dollar salary within a level for the specific career path.

d. Pay Range. The minimum to the maximum pay of a level. The range consists of minimum to the maximum salaries of the GS grades contained in the specific Demonstration Project level.

e. Incentive Pay Fund. The Command Incentive Pay Fund for Demonstration Project payout consists of two parts: (1) a fund for the payment of continuing salary increases, and (2) a fund for the payment of cash bonuses.

(1) The continuing salary increase fund is defined as the sum of:

(a) 3.2 percent of the midpoint salary of the level for each employee at Levels A and I.

(b) 2.8 percent of the midpoint salary of the level for each employee at Level II.

(c) 2.4 percent of the midpoint salary of the level for each employee at Levels III, IV and V.

(2) The cash bonus fund is currently defined as the sum of 1 percent of the midpoint salary of the level for each employee.

f. Continuing Salary Increase. A continuing salary increase is a dollar amount by which an employee's continuing salary is increased based on the performance rating and associated pay determination. The salary is increased by the number of continuing salary or pay points granted times the value of the point(s) granted. Point values are calculated annually, in advance, for all career paths and levels on a SPAWAR/PEO-wide basis. Only whole pay points may be granted, unless the granting of one point would cause the employee's salary to exceed the midpoint of the pay band. Where the granting of continuing pay points would cause an employee's salary to exceed the maximum salary of the pay band, or a statutory pay cap, the excess salary is payable as a cash payment, as explained in enclosure (1).

g. Bonus. A bonus is a dollar amount paid from the bonus fund based on the performance rating and associated pay determination. The bonus equals the number of

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bonus points granted times the value of the bonus point. The value of a bonus point is equal to the value of a continuing pay point for the same career path and pay band.

h. Bonus Point. A bonus point is paid as a cash payment based on the performance rating and associated pay determination. The value of a bonus point is equal to the value of an incentive pay point for the same career path and pay band.

i. Performance Ratings. Performance ratings are set forth in reference (d). Performance ratings are the basis for granting incentive pay increases or bonuses, as explained in enclosure (1) of this instruction.

j. Midpoint. The arithmetic mean of the minimum and maximum salaries of the pay band or level. The maximum salary includes OPM special rates when applicable.

k. Midpoint Principle. An employee who receives a "successful" rating and whose salary is at or above the midpoint of the pay band may receive zero or two continuing pay points, but may not receive one continuing pay point. An employee who receives a "successful" rating and whose salary is just below the midpoint may receive a continuing "partial point" to bring the salary up to, but not above, the midpoint. The remainder of the "partial" point awarded is returned to the pay center award pool and is not paid to the employee.

l. Base Grade. For purposes of exit from the Demonstration Project, the base grade is the grade in the General Schedule most compatible with the employee's current Demonstration Project level and salary. Where an employee's salary is within the range encompassed by two or more GS grades, the base grade will be the highest GS grade if the employee's salary equals or exceeds the representative rate (step 4) of the highest GS grade.

m. Promotion. The movement of an employee from a lower to a higher pay band in the same career path, or from a lower to a higher career path, wherein the pay band in the new career path has a higher maximum salary than the pay band from which the employee is moving.

6. Demonstration Project Pay Concepts.

a. The Demonstration Project incentive pay system is designed to reward high performers through meaningful salary increases or bonuses and to decrease or deny salary increases to lower performers. In order to receive an increase in salary, an employee must normally demonstrate acceptable performance of specific as well as general assignments. Pay increases other than promotions may be granted annually concurrent with the normal timing of the General Schedule comparability increase authorized by the

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President. All permanent employees are eligible for salary increases that include: (1) a percentage increase based on comparability, and (2) incentive point values. Incentive pay actions, both continuing increases and bonuses, are normally effective on the beginning of the first pay period in October. Comparability increases are effective as authorized by the President.

b. The Demonstration Project also includes an industry practice of competition for available salary resources. Individuals hired from outside the Command may be considered for salaries above the minimum of the level. Pay for new employees may be established based on requirements of the Command and market conditions in private industry. Starting pay is based on the individual's academic background and experience as well as salaries being offered by other activities and private industry.

7. Pay Setting Process. Enclosures (1) through (4) describe the various elements of the Demonstration Project pay system. Enclosure (1) is used to adjust salaries once a year, based on performance ratings. Enclosure (2) provides guidance in establishing salaries for new employees. Enclosure (3) describes the promotion process and pay setting. Enclosure (4) provides special instructions for level V.

8. Responsibilities. All managerial and supervisory personnel are responsible for ensuring that supervisors in their organizations are knowledgeable of the pay policies and procedures outlined in this instruction.

9. Action The Director, Human Resources Programs, Code 07-2, is responsible for maintaining the currency of this instruction .



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Distribution:
SPAWAR List 6
PEO-SCS
SNDL Part II:
FKQ (SPAWARSYSCENS)

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INCENTIVE PAY SYSTEM

1. Basis. The Incentive Pay System is anchored to the General Schedule (GS) pay system with lower and upper pay boundaries for each level prescribed by minimum and maximum pay for the equivalent GS levels. For example, DP-III is a combination of GS-12 and GS-13. The pay boundaries for DP-III are GS-12, step 1, and GS-13, step 10.

2. Incentive Pay Funds. Funds will be allocated to organizations based upon their population on 30 June each year. These amounts will not be exceeded unless written approval is received from the cognizant Commander/Commanding Officer/Program Executive Officer or their designee.

The following are the authorized pay centers and pay approving officials:

ORGANIZATION	PAY APPROVING OFFICIALS/PAY CENTERS
SPAWAR HEADQUARTERS	Commander Vice Commander Deputy Commander Staff Office Heads Directorate Heads Program Directors
PEO-SCS	Program Executive Officer Deputy PEO Assistant Deputy PEO/Chief Engineer Program Managers
SPAWARSYSCEN CHARLESTON SC	Commanding Officer Executive Director Staff Office Heads Department Heads
SPAWARSYSCEN CHESAPEAKE VA	Commanding Officer Technical Director Directorate Heads
SPAWARSYSCEN SAN DIEGO CA	Commanding Officer Executive Director Deputy Executive Director for Corporate Operations Executive Officer Department Heads

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All other codes are combined in a single pay center administered at SPAWAR Headquarters by the Commander and Deputy Commander. At PEO-SCS by the Program Executive Officer, Deputy PEO and Assistant Deputy PEO/Chief Engineer. At the SPAWAR Systems Centers, a combined pay center will be administered by the appropriate Commanding Officer and Executive Director/Technical Director.

3. Payout. Within the constraints of their Incentive Pay Fund and Bonus Fund, the designated pay approving officials grant points associated with the approved performance ratings either as continuing pay points or bonus points. The decision on the number of points, and whether they are a continuing salary increase or a bonus, is dependent upon:

- a. The employee's rating,
- b. The employee's current salary,
- c. Organizational equity (the relative salaries and contributions of others), and
- d. Availability of funds.

4. Pay Determination:

a. Based on performance ratings approved under reference (d), the following performance ratings and associated Demonstration Project pay points and comparability increases are authorized for use at PEO-SCS, SPAWAR, and its System Centers:

RATING	POINTS (INCENTIVE PAY AND/OR BONUS)	COMPARABILITY
Outstanding	3 or 4	Full
Superior	2 or 3	Full
Successful*	2,1 or 0	Full
Marginal	0	1/2 or 0
Unacceptable**	0	0

* Midpoint principle applies.

** Reassignment, downgrade, or removal required.

Enclosure (1)

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b. EXCEPTION to Midpoint Principle: Employees who on 30 June are affected by the categories listed below are only eligible for a "successful" performance rating. An EXCEPTION to the application of the midpoint principle applies to these "successful" employees which allows them to be eligible for up to 1 continuing point or 1 bonus point.

- (1) Are on long-term training.
- (2) Were hired within 3 months.
- (3) Were promoted within 3 months.
- (4) Are New Professionals/Management Interns on rotational assignment.
- (5) Are former New Professionals and have been permanently assigned to a code for less than 3 months.
- (6) Are on an Upward Mobility formal training agreement.
- (7) Are on temporary promotion less than 3 months.
- (8) Have returned to lower level from temporary promotion within 3 months.

c. An employee who receives a "successful" rating and whose salary is at or above the midpoint of the pay band may receive zero or two continuing pay points, but may not receive one continuing pay point. However, one or two bonus points may be awarded without restriction.

d. An employee whose current salary is below the midpoint of the level and who receives a "successful" rating may receive one continuing pay point or a "partial" pay point (in cases where the employee's salary is within one pay point of the midpoint) to bring the salary up to, but not above, the midpoint. Any excess remaining from the "partial" pay point will be returned to the pay center's award pool.

e. Employees who receive "successful" or better ratings receive full comparability as approved by Executive Order. Employees who receive a "marginal" rating may receive 1/2 or zero comparability as determined by the pay approving official. Employees who receive an "unacceptable" rating may not receive a comparability increase to their salary.

Enclosure (1)

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f. Commencing with the first pay period of 1999, and for every year thereafter when a comparability increase is approved by Executive Order, employees whose rating of record is "successful" or above and whose basic salary is at the top of the pay band level, will have their basic salary set at the top of the new comparability increase pay adjustment for their pay band level as approved by Executive Order. This will occur with any successive comparability increases until or unless the employee receives a comparability adjustment of less than full comparability due to their performance rating of record.

g. Employees whose current salaries are at or near the maximum salary for their level may receive continuing pay points partly or wholly paid in the form of a cash payment as explained below.

5. Cash Payment of Continuing Pay Points. Continuing pay points may be paid as cash payments in one of two circumstances:

a. Where the continuing salary increase would cause the salary to exceed the maximum salary of the pay band. Employees who, as a result of receiving continuing pay points, will exceed the maximum salary of their pay band will receive a salary increase up to the maximum for the level and a one-time cash payment of any amount in excess of the maximum salary. This one-time cash payment will not become a part of the employee's continuing base pay.

b. Where the continuing salary increase would cause the salary to exceed the statutory pay cap, the employee's salary will be increased up to the pay cap, and any excess amount due will be paid as a cash payment. If the statutory pay cap is raised within 1 year after the cash payment is made the employees will receive their new payable salary, up to the new statutory pay cap, less the amount of the cash payment, as follows:

(1) When the scheduled salary, less the cash payment paid, results in a salary below the new statutory pay limit, that will be the employee's new payable salary for that year.

(2) When the new scheduled salary, less the cash payment paid, results in a payable salary above the new statutory pay cap, the payable salary will be the statutory pay cap amount.

Enclosure (1)

6. Bonuses. A bonus of one, two, three, or four points, as permitted by the performance rating, may be granted from the pay center's bonus fund. Such a bonus would be appropriate where:

- a. The employee has accomplished a short-term, high quality achievement which deserves recognition but is not of a continuing nature; or
- b. The bonus recognized continuing quality achievement by an individual whose salary is properly set.

7. Employees Hired During the 1 July/October Payout Period. All new employees hired between 1 July and the date of the October payout receive comparability ONLY. This period is part of the next performance rating period.

8. Employees Promoted or Reassigned during the 1 July - October Payout Period. Employees who are either promoted to a higher level or reassigned to a position within a different career path and series retain their performance year rating. Any pay points awarded for the performance year prior to the promotion or reassignment to a different career path will be paid ONLY as bonus points.

9. Employees Separated During the 1 July - October Payout Period. Upon separation between 1 July and the following October payout, a Demonstration Project employee may not be paid continuing pay points, but will be paid any cash bonus earned and authorized for the preceding performance rating period at the time of separation.

10. Pay Pool Calculations. Each year, pay pool calculations are performed to determine both the point values to be paid employees through the incentive pay system and the amount of dollars available to managers for awards.

a. Point Value Calculation. Bonus point values and salary point values are identical. For each career path and level, the point values are calculated as follows:

- | | |
|-------------------------|---|
| (1) For Levels A and I: | 3.2% of the midpoint salary
divided by 1.5 |
| (2) For Level II: | 2.8% of the midpoint salary
divided by 1.5 |
| (3) For Levels III, IV, | 2.4% of the midpoint salary
divided by 1.5 |

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b. Incentive Pay Fund Allocations. The dollar amounts allocated to identified pay centers for the salary increase fund is calculated as the equivalent of 1.5 points for each employee in the organization on 30 June. The dollar amounts allocated to the pay centers for the bonus fund is calculated as the sum of 1 percent of the midpoint salary of their career path and level for each employee in the organization on 30 June.

NEW EMPLOYEES

1. Background. Normally, new employees are paid at the minimum salary of the level into which they are hired. The Demonstration Project provides two other salary setting approaches including:

a. Special in-hire salary levels that may be paid to external new hires who demonstrate superior qualifications and who are not currently occupying Demonstration Project positions.

b. Special in-hire salary levels for college graduates with less than one year of experience (New Professionals).

2. Approval Authority for In-Hire Salary Setting. Authority to approve in-hire salary rates for new employees other than New Professionals is delegated to the cognizant Commander/Commanding Officer/Program Executive Officer or their designee. Documentation of the recommending and approving authorities for in-hire salary setting internal to each SPAWAR/PEO-SCS component is the responsibility of that organization.

3. Superior Qualifications. Superior qualifications may be in education, training, experience, or any combination that is pertinent to the position. This salary setting approach applies to new permanent and temporary employees hired from the private sector or from other Federal activities or agencies not participating in Personnel Demonstration Projects. This procedure will not be used for New Professional (NP) applicants. NP applicants are those with one year or less of professional experience after graduating from a college or university. NP in-hire salary setting criteria are covered in paragraph 3 below.

a. Selecting officials will submit a memorandum when recommending a higher salary rate based on Superior Qualifications covering the factors listed below. The recommendation of the proposed salary should be submitted through the organizational chain to the management official having authority to approve the proposed salary. The approved memorandum is then sent to the Civilian Personnel Support Office for retention. The following factors must be considered and documented:

- (1) The applicant's directly related experience with immediate use in the job.
- (2) The applicant's current pay.
- (3) The pay level into which the applicant is being hired.

(4) The relation to salaries of current employees performing similar work.

(5) The amount of salary increase due to Within-Grade increase accrual.

b. The following exceptions are the only cases which allow current Demonstration Project employees to participate in superior qualifications pay setting:

(1) Student Career Experience Program (SCEP) employees are eligible for superior qualifications pay setting upon completion of their degree requirements and conversion to a permanent appointment.

(2) Student Temporary Employment Program (STEP) employees are eligible for superior qualifications pay setting upon conversion to a new appointment as STEP employees.

4. New Professional In-hire salaries.

a. To assure recruitment of high quality, recent graduates in science and engineering, starting salaries for these professionals are developed after review of industry averages. Annually salaries are reviewed and adjusted, if appropriate, during the summer, for the following year. Adjustments may be made at other times if required. Specific salary information is published annually as Demonstration Project In-Hire salary rates.

b. A New Professional Salary Recommending Committee is established as a subcommittee of the Demonstration Project Pay Committee. Its recommendations will be forwarded through the Pay Committee to the Demonstration Steering Group, whose recommendations will be submitted to the Commander/Deputy Commander, SPAWAR and Program Executive Officer for PEO-SCS for approval.

c. The approved salary matrix is used by New Professional recruiters and management to determine the starting salary for critical and important disciplines. Other disciplines are included in Group C. The matrix for New Professional applicants is shown below.

GROUP	BS/BA	MS/MA	Ph.D.
A	\$	\$	\$
A1	\$	\$	\$
B	\$	\$	\$
C	GS-7	GS-9	GS-11

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(1) Group A - Critical Disciplines. Salary recommended by the Committee and approved by the Commander/Deputy Commander. Grade point average is 3.0 and above.

(2) Group A1 - Critical Disciplines. Salary recommended by the Committee and approved by the Commander/Deputy Commander. Grade point average is 2.5 - 2.94.

(3) Group B - Important Disciplines. Salary recommended by the Committee and approved by the Commander/Deputy Commander. Grade point average is 3.0 and above.

(4) Group C - Salary is the starting or base salary at the GS grade levels shown. Included are Group A and B applicants having a grade point average of less than 3.0 and all other applicants having a degree who are hired into the DP/DA/DS career path.

e. New Professional is the designation given applicants who:

(1) Are graduates with a BS/BA degree or higher, and

(2) Have less than 1 year of professional experience since receiving their most recent degree.

f. Applicants having over 1 year's experience are evaluated on their experience as well as education and are covered by paragraph 3 above.

g. Pay Approving Officials as outlined in this instruction are authorized to approve salaries for New Professionals at Levels I and II who meet the criteria in this enclosure.

h. To assure that no employee with like qualifications (i.e., degree, discipline, and grade point average) is paid less than the new in-hire salary annually established for New Professional applicants, a salary adjustment is authorized as follows:

(1) Current employees' salaries will be reviewed and changed as required using the same effective date as the increased New Professional recruiting salaries.

(2) Employees must have a current performance rating of "successful" or higher to receive a salary adjustment.

(3) If two or more salary changes are effective on the same date, the adjustment salary increase will be effective after any other salary increase.

Enclosure (2)

PROMOTIONS AND OTHER LEVEL CHANGES

1. Background. Demonstration Project levels are composed of two or more General Schedule (GS) grade levels. Upon promotion from one Demonstration Project level to a higher level, a salary increase of up to 10 percent may be authorized. In instances where the new salary would be below the minimum salary of the new level, the lowest authorized salary will be the minimum of the new level.

2. Policy. Command policy is to ensure that positions are classified to the proper level. Employees may be promoted as necessary to properly reflect their level of work and contributions to the Command.

3. Procedures. Promotions may occur from General Schedule or Wage Grade, or within or between Demonstration Project career paths. For all promotions to Demonstration Project career path levels, the procedures outlined below will be used.

a. From General Schedule. A promotion occurs if the employee's current GS grade is lower than any of the GS grades included in the Demonstration Project level. The employee will receive at least the minimum pay of the new level or an increase of up to 10 percent of the current salary, whichever gives the higher salary.

b. From Wage Grade. Federal Wage Grade employees will have their pay set at the beginning pay of the band. At management discretion, pay can be set at a higher rate based on the maximum payable rate/highest previous rate

c. From the SAME Career Path. Command employees will receive, as a minimum, the lowest scheduled pay for the level or an increase of up to 10 percent of their current salary upon promotion.

d. From a LOWER Career Path. A promotion occurs when the new Career Path level has a higher maximum salary than the pay band from which the employee is moving.

e. Approved Promotions. Approved promotions will carry a 6 percent salary increase unless a different increase is approved as an exception at SPAWAR by the Commander/Deputy Commander; at PEO-SCS by the Program Executive Officer; and at the SPAWAR SYSTEM CENTERS by the appropriate Commanding Officer/Executive Director/Technical Director/Deputy Executive Director for Corporate Operations.

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f. Factors. Factors to be considered in determining promotion increases of other than 6 percent are:

- (1) Directly related experience of immediate use in the job.
- (2) Current salary.
- (3) Salaries of other employees in the work group.

4. Demotions or Change to Lower Levels.

a. Changes to lower level at an employee's request (except to accept an upward mobility position or because of a disability) will result in pay either:

- (1) Remaining the same if the current pay is within the new level, or
- (2) Pay being reduced to the top of the new level if current pay is above the maximum of the new level.

b. Involuntary changes to a lower level that result from an adverse action for performance or conduct will result in a salary change to the minimum of the level to which demoted.

c. Involuntary changes to a lower level as a result of migration due to failure to receive a salary increase will result in no change in salary.

5. Saved Pay. The principle of a reasonable adjustment period for employees granted saved pay is a flexibility of the Demonstration Project. Use of pay retention because of base closures, upward mobility actions, and for other appropriate instances will be considered. When a General Schedule increase is authorized for other Demonstration Project employees, one-half of the General Schedule increase will be granted to the employee who has been granted save pay, until the employee's pay can be matched within the pay band of the assigned level.

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SPECIAL INSTRUCTIONS FOR DP-V

1. DP-V encompasses Scientific and Professional (ST) Positions (formerly Supergrades 16, 17 and 18). Use of DP-V is authorized by the Navy Department as an ST equivalent. Salaries for DP-V employees will be established within the ST salary range approved by Navy. The minimum pay rate for ST positions is set at 120% of GS-15, Step 1; and the maximum is set at the rate for level four (IV) of the Executive Schedule.
 - a. Following DON approval, promotions to DP-V will be processed as other Demonstration Project promotions. The same salary increases are authorized as for other Demonstration Project promotions.
 - b. Reassignments to DP-V from SES or other similar levels will have their salary set as close to their current salary as possible. If the employee's current salary is above the top of the level of the authorized ST level, the employee will be paid at the top of the level.
2. The midpoint of DP-V is established by arriving at the mean of the minimum rate of ST pay and the maximum rate of ST pay.
3. A pay cap on the top of the approved ST level will restrict payable salary. When there is a pay cap, the employee's scheduled salary will continue to increase (with appropriate point distributions) but any salary increase will be paid out as a bonus. The top of level will cause any pay increase to be paid as a bonus with no change to the employee's scheduled salary. This is covered in detail in enclosure (1), paragraph 5b.
4. Any proposed salary increase that would exceed the top of the level for the DP-V employee must be submitted by PEO-SCS or SPAWAR to the appropriate higher authority. Until authorized by higher authority, a DP-V employee's salary will be kept within the range of the approved ST level.